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SUBJECT: AMBASSADORS PRIVATELY WARN ORTEGA INTERMEDIARIES
OF CONSEQUENCES OF "DOUBLE TALK"

Classified By: Ambassador Paul Trivelli for reasons 1.4 (b and d)

1. (C) Summary: The Ambassadors of Spain, Germany, and the United States recently warned Ortega administration officials during a private meeting that President Ortega's contradictory statements and actions regarding foreign affairs, press freedom, and investment could damage the economy and bilateral relations. Ortega's Foreign Minister and Economics Advisor responded by blaming the press for distorting the government's message and the outgoing Bolanos administration for allowing "speculators" (international investors) to take advantage of the country. However, they did pledge to resolve outstanding issues in a way that would be "fair" to both parties. End Summary.

2. (C) Ambassador hosted a breakfast on March 27 with senior host government officials and the local Ambassadors of Spain and Germany to discuss political and economic issues. Foreign Minister Samuel Santos, Economics Minister Horacio Brenes, and Presidential Advisor Bayardo Arce spoke on behalf of the Ortega administration. Arce handled the nuts and bolts of the economic issues raised, while Brenes, presence was punctuated by his silence. Santos and Arce glossed over some issues, such as relations with Iran and Aleman's new privileges to move about the country, but the meeting was generally cordial, and Santos played his usual role as reconciler.

3. (C) Ambassador Trivelli opened the breakfast by remarking that the administration's moves to centralize government, criticize the press, scapegoat international investors, and engage pariah regimes such as Iran raise questions about the new government's commitment to maintain an open democracy and friendly relations with all. Ambassador Trivelli and Ambassador Koebel of Germany added that the perception of judicial irregularities regarding the cases of Eric Volz, an American convicted of murder, and Arnoldo Aleman, the convicted PLC leader recently granted freedom to move about the country with no apparent legal justification, call into question Nicaragua's commitment to rule of law. The increasing unease generated by the administration's lack of clarity on important issues could lead to decreased investment, a slowdown in new construction, and lower tourism revenues.

4. (C) Santos and Arce blamed the "sensationalist press" for distorting the administration's policies, and Santos asserted that all new government's experience a "period of adjustment." Arce argued that a decrease in economic activity is "normal" after a change in government, but that they really do not see much of decline. Arce stated the

administration will continue to pursue "transparency in investment." (Comment: Ironically, Arce is a reputed money launderer. End Comment.)

15. (C) Regarding the Volz case, Santos stated that the government had done everything possible to respond to concerns about Volz' security and wondered aloud if the international media would prefer the government to "forget Nicaraguan law." Arce later tried to absolve the executive of responsibility by admitting that "our judicial system unfortunately has faults that we can't hide." He suggested to the European ambassadors that the European Union cut off judicial assistance to force the Supreme Court to implement the Judicial Career Law.

16. (C) Koebel and Spanish Ambassador Jaime Lacadena remarked on two cases in the energy sector involving geothermal energy company Polaris (German, Canadian, and U.S. invested) and electricity distributor Union Fenosa (Spanish). Lacadena stated that he is obliged to represent the interests of Spanish multinationals, and that the situation that Union Fenosa found itself in is "very complicated." Later, he pointed out that the Nicaraguan government appears to apply different rules to public and private utilities. Arce replied that the government does not intend to push out Union Fenosa. If Union Fenosa goes or if it stays, "it will be Union Fenosa's decision," he claimed. As for Polaris, Arce mentioned others are interested in the geothermal project, including the Italians and Russians. He added that Polaris had had plenty of time to accomplish milestones set forth under its concession contract, and that the royalty payment to government in exchange for its transfer was way too little for an investment whose book value was \$29 million.

17. (C) With respect to land disputes on Nicaragua's Pacific Coast, Arce acknowledged that many foreign investors are experiencing difficulties with disputed properties, especially in Tola (a municipality in the southern department of Rivas), but he faulted "opportunistic" investors for buying land without thoroughly investigating the validity of title.

18. (C) Santos claimed that the Sandinistas had inherited many difficult and long-standing problems in the power sector from the Bolanos government that would take time to sort out. Santos made the point more than once that the government intends to pursue its socialist objectives of serving the poor, providing for health, education, electricity and water, but in a "modern and sane way." Arce blamed Bolanos for allowing international "robber barons" and "speculators" to take advantage of Nicaragua with unfair terms, without contributing to the country's infrastructure. He pledged that the new government will treat investors "fairly," but with the ultimate goal of benefiting Nicaragua.

19. (C) Comment: While Arce and Santos seemed defensive in this meeting and did not appear to accept the fact that there has been a marked change in investor attitude toward Nicaragua, they are part of a relatively moderate faction of Sandinista investors with a personal stake in economic stability and good relations with the U.S. and Europe. The breakfast served to them know that we and other embassies are monitoring investor relations closely, a message they can use to push back against party radicals urging Ortega to strengthen alliances with Venezuela and Iran.

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